

AR07





Summary of Significant Facts

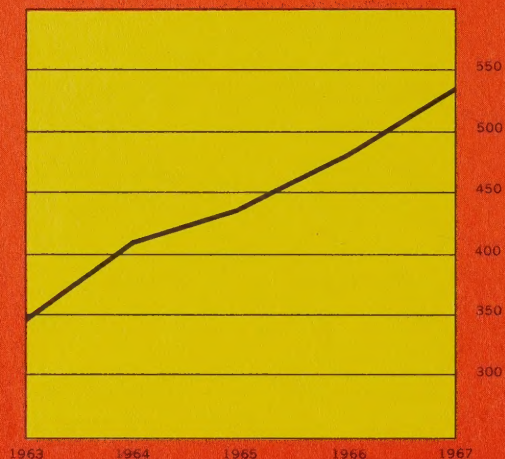
	Year Ended December 31 1967*	Year Ended December 31 1966*
EARNINGS		
Income		
Sales of products and services.....	+ 12.97% \$534,816,599	\$473,504,817
Other income.....	5,767,865	5,449,542
Total income.....	<u>\$540,584,464</u>	<u>\$478,954,359</u>
Earnings before income taxes.....	\$ 74,119,304	\$ 81,870,416
Net earnings after income taxes		
Amount.....	- 14.77% \$ 36,189,166	\$ 42,460,618
Per share.....	\$ 1.74	\$ 2.04
Charge for		
Depreciation.....	\$ 21,901,520	\$ 19,425,250
Depletion.....	4,832,870	4,935,593
Amortization of logging roads.....	<u>4,366,963</u>	<u>3,979,379</u>
	<u>\$ 31,101,353</u>	<u>\$ 28,340,222</u>
Earnings retained in business at end of year.....	\$175,786,165	\$164,702,393
Net as % of sales	6.77%	8.97%
CAPITAL EXPENDITURES.....	\$119,863,008	\$ 90,418,360
DIVIDENDS		
Cash - Ordinary shares		
Amount.....	\$ 25,027,505	\$ 20,856,255
Per share.....	\$ 1.20	\$ 1.00
Cash - Preference shares		
Amount.....	\$ 77,889	\$ 46,822
Per share.....	\$.03	\$.03
Stock		
Amount.....	\$ —	\$ 5,214,064
Per share.....	\$ —	\$.25
EMPLOYEES		
Wages, salaries and employee benefits.....	\$132,698,261	\$116,772,119
Number at end of year.....	16,549	15,959
SHAREHOLDERS		
Number at end of year.....	24,671**	24,415**

*Statistics and charts throughout this report do not reflect the consolidation of overseas subsidiaries (see Note 1 of Financial Statements).

**Excluding holders of share warrants.

Sales of Products and Services

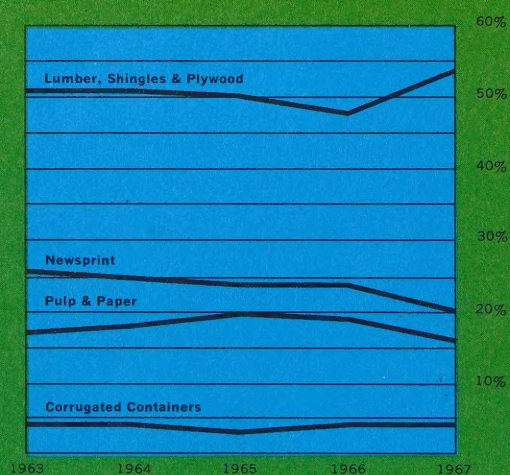
Millions of dollars



Sales of Products by Markets

	1967	1966
U.S.A.	40.2%	42.3%
B.C.	8.0%	9.0%
Rest of Canada	16.4%	16.3%
U.K.	10.8%	10.3%
Japan & Orient	10.5%	8.4%
Other	14.1%	13.7%

Percentage Contribution to Sales by Products



Distribution of Total Income

	1967	1966
Purchases of Goods, Supplies & Services	53.4%	49.7%
Wages, Salaries & Employee Benefits	24.5%	24.4%
Federal, Provincial & Municipal Direct Taxes	9.6%	11.1%
Depreciation, Depletion & Amortization	5.8%	5.9%
Dividends	4.6%	5.5%
Earnings Retained	2.1%	3.4%

Report of the Directors

To the Shareholders: MacMillan Bloedel Limited

The Board of Directors submits to the shareholders its report for the year ended December 31, 1967 together with the relative consolidated financial statements and the report of the auditors.

Sales and other income for the year ended December 31, 1967 were \$540,584,464 and the net earnings were \$36,189,166. These figures compare with \$478,954,359 and \$42,460,618 respectively for the previous year. Part of the sales increase is attributable to Blanchard Lumber Company and Kingsway Lumber Co. Limited acquired in the latter part of 1966.

The increase in sales reflects a satisfactory market for lumber, plywood and packaging products, but a marked weakness in sulphate pulp and newsprint, the two latter products having been affected by over-capacity in world markets. On the other hand, demand for kraft paper and paperboard, fine paper and sulphite pulp was reasonably strong throughout the year.

The sharp reduction in earnings is attributable to an important extent to the heavy increases in costs of wages, salaries and employee benefits. In 1967 these amounted to \$132,698,261 as compared to \$116,772,119 in 1966 and \$101,485,089 in 1965. The Company was likewise faced with higher interest charges in respect to the financing of the incomplete expansions in Alabama and Powell River from which no contributions to earnings were received in the year under review.

The following comments are made in respect to the different operations of the Company, with production figures where applicable being given at the outset.

LOGGING

Production:

1967 - M Cu. Ft. 274,677.....(mfbm 1,540,170)
1966 - M Cu. Ft. 273,425.....(mfbm 1,536,410)

The increase in the volume of production was accomplished notwithstanding the extremes of

weather conditions prevailing during the year.

In the summer there were very dangerous fire hazards which caused prolonged closures of operations. Conditions were more severe than at any time since 1958 and there were a number of fires on Company lands. The most serious fire broke out at Sproat Lake on Vancouver Island in the Taylor River area, when a contractor employed by the Provincial Department of Highways was working under highly hazardous fire conditions during the latter part of August. A major disaster was averted by the effective action of the Company's logging personnel and the water bombers of Forest Industries Flying Tankers Limited. Nevertheless, nearly 6,500 acres were burned before the fire was brought under control. The major part of the fire-fighting cost has been met by the Provincial Government but, in respect to the balance of costs and the severe property damage, it is the Company's intention to make claims against those considered to be responsible.

Forest Industries Flying Tankers Limited, in which the Company is the major shareholder, made a significant contribution to forest fire control during the year. The two large aircraft operated by that company dropped over 2 million gallons of water and nearly 6 tons of gellard, which is an additive causing a reduction in evaporation and extending the effectiveness of the water.

In the latter part of the year operations were disrupted by abnormally heavy rainfall, accompanied by high winds. Production thus lost through fire and rain in what normally would be the most favourable periods for work had to be made good by exceptional efforts under adverse weather conditions during the balance of the year. This added appreciably to logging costs.

Some new logging methods were introduced during the year, including grapple yarding which promises to improve safety and productivity. Hydraulic tree shears for mechanized falling

were used for the first time on the B.C. coast and have promising possibilities, being particularly suitable for smaller timber.

Crown stumpage rates, which are governed by a B.C. Forest Service formula based on log prices, were, on average, significantly lower. The decline in market log prices commenced in the latter part of 1966 and continued well into 1967. However, later in the year the trend was reversed in the face of a shortage of logs due to forest fire closures and difficult weather conditions.

The townsite subdivisions at Kelsey Bay, Port Hardy and Port Clements progressed as planned during 1967 and 104 homes have now been constructed and sold since the introduction of the programme to provide modern homes for logging employees on favourable terms.

Kingcome Navigation Company Limited, a wholly owned subsidiary responsible for the towing of booms and barges, had an active year which saw the first full year of the movement of newsprint by barge from the Company's mills at Powell River and Port Alberni to California. This method has proved to be highly successful and in 1968 a third barge, the "NAHMINT CARRIER", has been added to the fleet.

Construction started on a self-propelled railcar barge, the "HAIDA TRANSPORTER", with a capacity of 26 rail cars. This is expected to be in service by the middle of 1968 and will handle all rail car shipments from the mills at Powell River and Harmac to connect with further rail movement from Vancouver. It is anticipated that considerable savings in the cost of transportation will result.

The Pole Division had a somewhat lower volume of production from the previous year due largely to the forest closure during August and September. Difficult financial conditions caused a general shrinkage in the market for poles and consequently the sales revenue from this source declined.

FORESTRY

Because of the extended period of fire hazard intensive forestry had to be curtailed. Nevertheless, nearly 26,000 acres were the subject of site preparation and were treated for weed control, thinning and spacing. In addition, over 3½ million trees were planted, bringing the total to nearly 56

million trees on 121,000 acres since the programme commenced. In total, over 198,000 acres have been given one form or another of intensive forestry treatment designed to improve future yields.

Experiments were conducted with a new method of planting which has great promise. The seedlings are grown in plastic containers, which at planting time are driven into the ground by an ejector tool. It is believed that this method will improve the chances of survival, encourage early growth and make possible extensive planting of hemlock which has hitherto presented some difficulty.

The balsam woolly aphid infestation on southern Vancouver Island and the Lower Mainland continues to be the most serious single insect threat to the coastal forest. A major programme of research and survey is being conducted by Federal and Provincial Governments together with the forest industry in an effort to control this dangerous infestation.

WOOD PRODUCTS

Production:	1967	1966
Lumber.....M FBM	1,139,437	1,037,806
Plywood.....M Sq. Ft. ¾"	416,664	406,271
Shingles.....Squares	443,816	430,852
Particleboards...M Sq. Ft. ¾"	89,905	68,557
Specialty Board...M Sq. Ft.	12,950	7,517

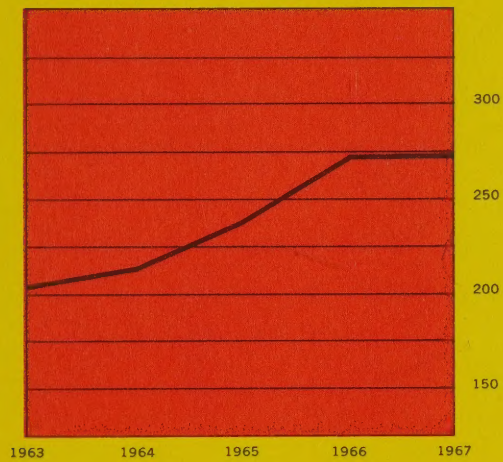
It is the Company's practice to convert about 60% of the log into lumber and plywood and use most of the balance in the form of chips for the production of pulp, paper and particleboards.

Apart from the converting plants in British Columbia, the Wood Products Group is responsible for the operation of the new sawmill in Alabama which has an annual capacity of 60 million fbm and the new plywood plant with an annual capacity of 120 million sq. ft. ¾" basis, both of which have recently commenced production. The residual chips from the sawmill and plywood mill, together with pulpwood logs, will provide the raw materials for the adjoining linerboard plant.

Other operations outside British Columbia include the Aspenite particleboard plant in Hudson Bay, Saskatchewan. During the year the Company also acquired a substantial interest in Bougainville Development Corporation Limited, which holds

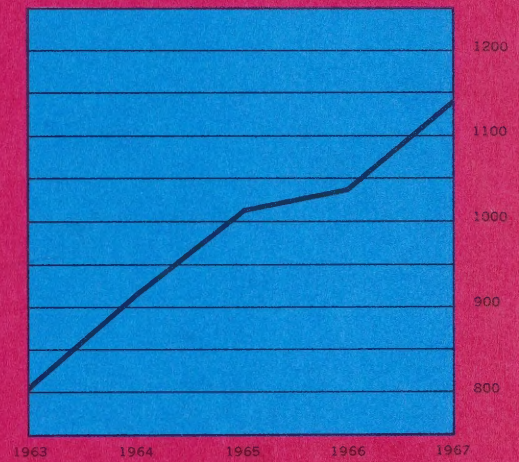
Logs

Production, million cubic feet



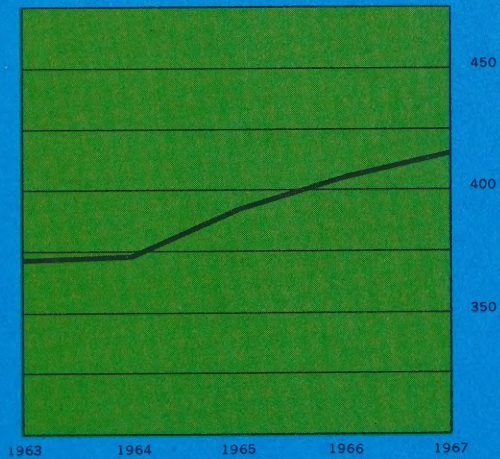
Lumber

Production, million board feet



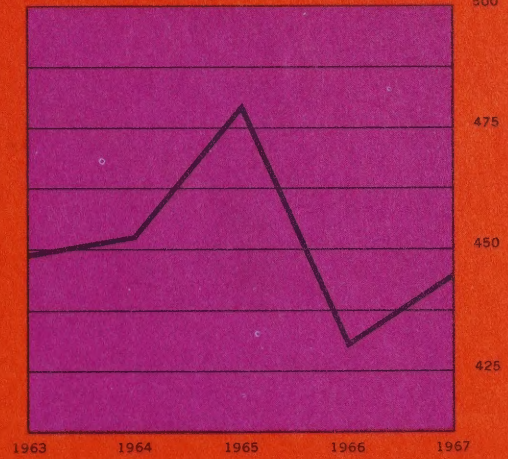
Plywood

Production, million square feet ($\frac{3}{8}$ "



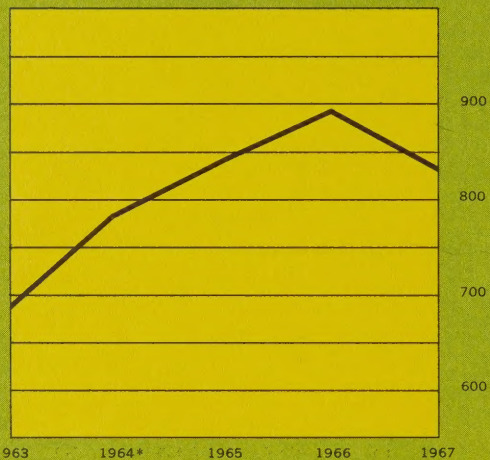
Shingles

Production, thousand squares



Newsprint

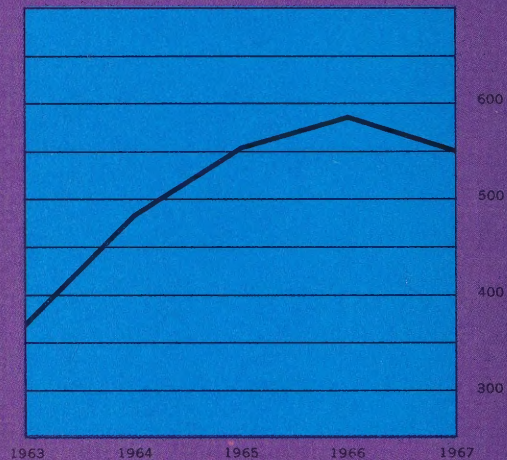
Production, thousand short tons



*Includes tonnage purchased during strike.

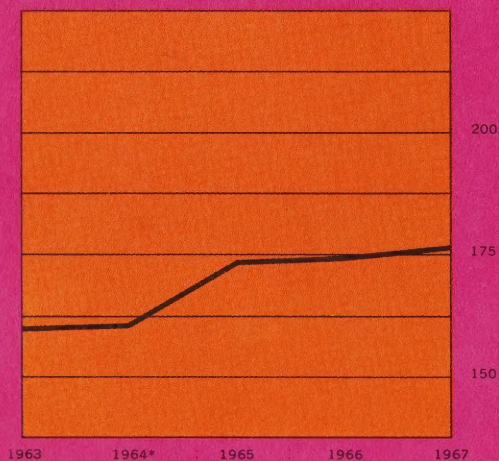
Pulp

Production, thousand short tons



Kraft Paper and Paperboard

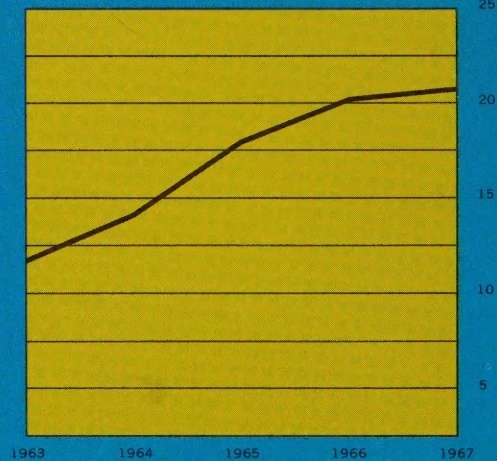
Production, thousand short tons



*Includes tonnage purchased during strike.

Fine Paper

Production, thousand short tons



the cutting rights to some 100,000 acres of timber located on the island of Bougainville in the Solomon Islands. At present the operation is producing logs for the Japanese market but a sawmill is in the planning stage.

Marketing activities extending over more than 40 countries are carried out through subsidiary sales agencies and independent agents. In the United Kingdom lumber is imported through a subsidiary, MacMillan Bloedel Meyer Limited. Blanchard Lumber Company, with headquarters near Boston, Mass., and Kingsway Lumber Co. Limited of Toronto, both of which were acquired in 1966, made valuable contributions during the year to the marketing organization.

The arrangement with British Columbia Forest Products Limited for the sale of that company's production of lumber, shingles, shakes and plywood continues to the satisfaction of both companies. A new contract was made for a term of ten years commencing September 1, 1967, the only change of note being that British Columbia Forest Products Limited undertook responsibility for the sale of its wood products, excluding plywood, to the U.S.A. rail market.

Throughout the year demand for lumber was good, particularly in the U.S.A., Japan, Europe and Australia. The volume of lumber shipments in 1967 exceeded that of the previous year by 25%.

The major markets for Douglas Fir plywood during the year were Canada, the United Kingdom and Europe. Exports to the United States of fir plywood are effectively prevented by tariff. The Canadian market was relatively slow in 1967 and, consequently, greater efforts were made in the direction of the United Kingdom, Europe, Japan and other offshore markets. As a consequence, shipments to these areas accounted for more than 32% of the total volume.

Shingle markets were extremely slow although demand improved in the last quarter of the year accompanied by firmer prices.

Aspenite particleboard, a multi-purpose product, continued to be in good demand. Modifications carried out in the plant during the year contributed to operating efficiency. Sale of particleboard under the trade name

"k3" made progress, particularly for use as floor underlayment and foundation for overlays in furniture manufacture and house fittings.

The Specialty Board Division, while not yet operating at full capacity, made steady progress to the point where sales were double those of the previous year. Several new products were marketed, of which Woodgrain Overlays (simulated woodgrain patterns applied to particleboard) and Sylvacote Plygard (plywood coated to produce a self-releasing concrete form board) had a good reception.

PULP AND PAPER

Production:	Short Tons	
	1967	1966
Newsprint.....	832,361	896,361
Pulp.....	550,245	586,867
Kraft Paper and Paperboard.....	178,382	174,462
Fine Paper.....	20,801	20,043

Production from the Company's pulp and paper mills declined by 5.7% during 1967 as compared with the previous year. An over-supply of kraft pulp on world markets and reduced sales of newsprint from British Columbia, due to increased competition in Western U.S.A., were responsible for the greater part of this decline. On the other hand, sales of kraft paper and paperboard, fine paper and sulphite pulp continued to be satisfactory. Prices were firm for most products throughout the year, with the exception of kraft pulp where the aggressive competition of new sources of supply forced prices downward.

At Pine Hill, Alabama, the construction of the new 270,000 ton per year linerboard mill is proceeding well within schedule and it is expected that the plant will be in production before the end of 1968. The plant will be operated by MacMillan Bloedel United Inc., in which MacMillan Bloedel Limited has a 60% interest and United Fruit Company of Boston, Mass. 40%.

Koninklijke Nederlandsche Papierfabriek N.V. of Maastricht, Holland, in which the Company holds a 36% interest, has experienced another satisfactory year in the highly competitive European market. Production and sales are expected to exceed those of the previous year although, due to pre-operating expenses incurred in the construction of the new plant at Lanaken in Belgium, net profits will be lower. This project, which is near completion

and which will cost about \$30,500,000, comprises an additional fine paper machine and a pre-coater which should greatly assist the company in meeting competition in the European fine and printing paper market. Construction of the fine paper mill at Algeciras in Southern Spain by Celupal S.A. is now well advanced and initial production at an annual rate of 20,000 tons is expected to commence by the end of the current year. The company is owned by MacMillan Bloedel Limited, Koninklijke Nederlandsche Papierfabriek N.V., and Spanish interests.

A temporary office has been opened in Whitecourt, Alberta for the use of personnel engaged in making a detailed forest inventory. Preliminary drawings of the Whitecourt project are being prepared by a firm of consulting engineers but no construction contracts have been placed.

Canadian shipments of newsprint to the U.S. Western region declined by approximately 15% during 1967. The Company, as the major supplier, shared in this loss of business. During the year there was a marked slow-down in the previous vigorous pattern of growth for newsprint consumption in this area. Furthermore, other companies brought four new paper machines into production and this increased the available annual capacity for the supply of newsprint to the U.S. Western area by 380,000 tons. Two more machines with a total annual capacity of 250,000 tons will start up in 1968. Inventory levels of many of the Company's more important customers in the U.S.A. were reduced and this contributed to the over-supply situation.

Shipments of newsprint to Western Canada continued at very satisfactory levels throughout the year. Further development was undertaken in overseas markets in 1967 which hold promise for increased business in 1968.

In June 1967 the new No. 10 newsprint machine at Powell River started up. This five-roll 324" machine with a rated speed of 3,000 feet per minute has a capacity of 160,000 tons per year. With the introduction of this new capacity for high quality newsprint, older machines at Powell River will, as markets develop, be used to broaden the Company's newsprint marketing base through increased attention to specialty

groundwood printing papers, including "Supertone", a well received rotogravure newsprint paper.

The whole Powell River expansion project progressed satisfactorily throughout the year. Including the additions approved during the year, the final cost is now estimated to be \$110,000,000. Construction work has passed peak activity and will be complete with the start-up of the 180,000 ton per year semi-bleach kraft mill early in 1968.

As forecast, the Company's two kraft pulp mills operated at less than capacity through most of the year. In many traditional marketing areas new supply sources competed aggressively with established producers for the available business. Conversely, demand for market sulphite pulp from Powell River remained firm allowing continued capacity operation throughout the year. The new kraft mill at Powell River will supply semi-bleached kraft to the newsprint machines, thus effecting considerable savings in transportation of kraft pulp from Harmac. The balance of its capacity will be available for sale on the market.

The conversion of the semi-bleach plant at Harmac to a third full-bleach line was completed by the year end. This valuable addition will add flexibility to Harmac's present product line enabling the mill to meet varying market demands.

Notwithstanding the increased competition during 1967, price levels for kraft pulp remained reasonably steady during the first half, but yielded gradually to market pressures throughout the second half.

Demand for kraft paper and paperboard remained strong throughout 1967, and all machines recorded another year of capacity operation. At the end of the year evidence of over-supply appeared in the export market. Domestic business remained active and prices were firm.

Although sales of fine paper from Island Paper Mills Division increased by 8% in 1967, market growth opportunities were outpaced by the machine's expanded capacity and resulting spare capacity was used to produce kraft paper grades. All sales continued to be to the domestic market, where prices remained reasonably steady through the year.

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PACKAGING

Production:

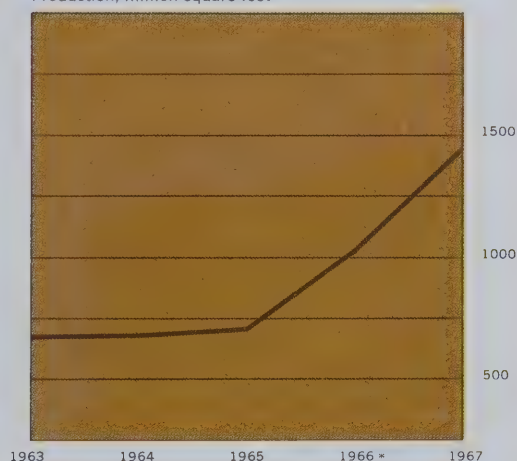
Corrugated Containers	1967	1966
Canada & U.S.A. . M Sq. Ft.	1,454,032	1,057,038*

*includes production of U.S.A. plants for part year only.

In Canada the year generally was a good one, with higher sales and better profits. There was no major expansion in the activities of the Corrugated Container Division. The Folding Carton Division, however, expanded its territory to include the Provinces of Manitoba and Saskatchewan by opening a sales office in Winnipeg. The Bag and Specialty Division increased its warehouse facilities to cover all major Prairie centres and developed a number of new specialty lines.

Corrugated Containers

Production, million square feet



*Includes production of U.S.A. plants subsequent to their acquisition during the year.

In the U.S.A., where the corrugated container operations are located in Jersey City and Baltimore, progress continued to be somewhat slow, particularly in New Jersey. Both plants were acquired towards the end of 1966. It is expected that they will be important consumers of linerboard from the Alabama operation when it commences production.

In the United Kingdom in October 1967 the Company's two subsidiaries, Hygrade Corrugated Cases Limited and Cooks Corrugated Cases Limited, were amalgamated under the name of MacMillan

Bloedel Containers Limited. This was done for the purpose of effecting economies and facilitating the administration of the whole organization, which comprises five plants, under one Managing Director, Mr. Ronald Adamson.

Although there was some reduction in staff, which is inevitable in a re-organization of this nature, the new arrangements were well accepted and will result in greater efficiencies. Market competition was particularly severe. Sales were down 5% and profits down 3% which, in view of the economic conditions which have prevailed in the United Kingdom during the year, can be regarded as reasonably satisfactory. Devaluation was a disturbing factor. The outlook depends to a great extent on what measures the British Government takes to improve the economy.

CORPORATE RESEARCH AND DEVELOPMENT

The Research Centre on West Broadway, Vancouver is now staffed and equipped to pursue an increasingly vigorous approach to the development of new products and processes. It now has a staff of over 120, comprising scientists, engineers and technicians.

Much work was carried out during the year on many promising developments, in particular the improvement of kraft pulping methods, more efficient manufacture of Aspenite particleboard, the extraction of chemicals from wood bark, the control of mill effluents and the application of glue by spraying to plywood veneer surfaces.

The spraying of glue on plywood veneer surfaces is already being used on a commercial basis at the Vancouver Plywood Division and the new plywood mill at Pine Hill, Alabama. It has been found to improve plywood quality and reduce manufacturing costs.

Extensive research work continues to be carried out on air and water pollution. It is a highly complex technical problem in respect to which the Company has already incurred heavy costs. Important progress is being made.

DISTRIBUTION

In the latter part of the year the Physical Distribution Department was re-organized for the greater assistance of Product Groups in the planning and evaluation of their transportation

Capital Expenditures

The total expenditures for the year were \$119,863,008 grouped under the following headings:

LOGGING

Acquisition of logging buildings and equipment, additional severance tax applicable to purchase of timberlands in 1964 and construction of roads..... \$ 13,899,286

WOOD PRODUCTS

Revision of Somass Division facilities, lumber and plywood manufacturing facilities and timber and land in Alabama and general improvements to operations..... 22,534,454

PULP AND PAPER

Expansion programme at Powell River Division, linerboard mill in Alabama and general improvements to operations..... 80,282,842

PACKAGING

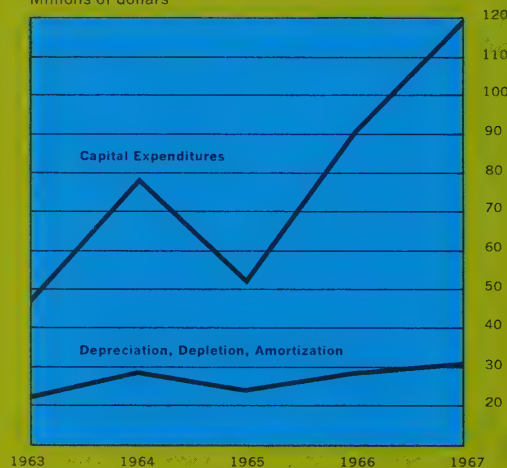
General improvements to operations..... 465,809

OTHER

Expenditures on new newsprint and car barges, research facilities and sundry additions... 2,680,617
\$119,863,008

Capital Expenditures

Millions of dollars



operations. The costs of the shipment of Company products to the customer exceed \$100 million annually. Technological changes of great significance in the field of transportation continue to take place and it is believed that the specialized services of this department will contribute in an important degree to savings in the cost of freight.

The new United Kingdom terminals at Newport and Tilbury which were opened in July 1967 have reduced the ports of discharge in the U.K. from fourteen to two, and the deep draft facilities thus provided have enabled the use of larger ships with a favourable effect on freight costs.

Three bulk carriers have been chartered on a long-term basis by the Company's subsidiary, Canadian Transport Company Limited, from Canadian Pacific (Bermuda) Limited. The first, the "H. R. MACMILLAN", was launched in October for delivery in February 1968. The second, the "J. V. CLYNE", was launched in February 1968, and the third is in course of construction. These bulk carriers, each of approximately 28,000 dead-weight tons, are of the open hatch type construction and are equipped with gantry cranes. They will be engaged principally in trade between British Columbia and the United Kingdom.

The charter freight market was in an unsettled state during 1967. The closure of the Suez Canal, the devaluation of the pound sterling and the chaotic internal situation in China all had their effect on the charter market. The closure of the Suez Canal resulted in medium sized tankers which had been temporarily engaged in the trans-Atlantic grain trade withdrawing from the dry cargo market and returning to the carrying of oil. This placed standard bulk carriers in a preferred position due to shorter supply thus leading to higher charter rates.

CENTRAL PURCHASING

Purchases during 1967, excluding those relating to expansion projects, amounted to \$51 million, a decrease of 4% from the preceding year. Rising material and labour costs exerted a continuing upward pressure on prices.

There were several changes in Federal Sales Tax during the year, the most important of which was the elimination of the Sales Tax on production machinery and logging equipment.

CENTRAL ENGINEERING

During 1967 the activities of the Central Engineering Department included the successful start-up in June of the new No. 10 Newsprint Machine at Powell River and the virtual completion of the entire Powell River Project by the end of the year. The department also furnished engineering services in respect to a large number of other Company projects.

DISTRIBUTION OF SHARES AND SHAREHOLDERS as at February 14, 1968

	Shares	Shareholders
Canada.....	15,534,279	23,057
United States.....	4,521,027	1,267
United Kingdom.....	93,739	120
Elsewhere.....	81,974	187
	<u>20,231,019</u>	<u>24,631</u>
Share Warrants.....	625,236	
	<u>20,856,255</u>	

In regard to share warrants, it is estimated that 75% are held in the U.S.A. and 25% in Canada. The number of warrant holders is not known.

FINANCE

In July 1967 the Company made a public issue of U.S. \$30 million 6½% Debentures, Series 'C', due July 15, 1992 through Lehman Brothers, Lazard Frères & Co., Wood Gundy & Co. Inc., and Greenshield & Co. Inc. These Debentures were issued under and secured by a Trust Indenture dated October 1, 1965 as amended by subsequent Supplementary Indentures, including that of July 15, 1967 with particular reference to the Series 'C' Debentures. Payments were received on July 27, 1967 of U.S. \$19,650,000; October 16, 1967 U.S. \$3,550,000 and January 16, 1968 U.S. \$6,800,000.

The dispute with the Provincial Government referred to in the notes appended to the last Annual Report in respect to the severance tax payable on the purchase of 141,390 acres of Crown grant timberland from the Esquimalt & Nanaimo Railway Company in 1964 for \$36 million has now been settled. The amount of the tax, based on 25% of the actual purchase price, was expected by the Company to be \$9 million payable over a 10-year

period. However, the Provincial Government levied an assessment on one block, in the amount of \$8½ million, which indicated a total severance tax close to \$25 million. Negotiations have since been conducted with the Provincial Government and, as a result of favourable Court decisions and prolonged discussions with the Government, an agreement has now been reached on the basis of the severance tax being increased by roughly \$1 million more than was originally expected, payable over ten years. This brings the dispute to an end on a reasonably satisfactory basis.

On November 18, 1967 the pound sterling was devalued by 14.3%. The Company has consistently followed the policy of covering sterling commitments forward through its bankers, and thus there was no loss on the current sterling accounts receivable or on orders accepted and unshipped at that time. However, the sterling markets, in which the Company is interested, were much disturbed and some time passed before a new level of prices developed. In general, prices for our products have not increased to the full extent of the devaluation.

The announcement in the Budget Speech by the Minister of Finance to the effect that the Government did not intend to implement the Carter Commission recommendations was a matter of gratification to the Company, and to business generally. The Company, as did a great many other business organizations, filed a brief with the Government protesting against the recommendations of the Carter Commission. It was believed that if they had been implemented great confusion would have been caused and in the end they would have been found largely unworkable in practice.

INDUSTRIAL RELATIONS

Major agreements with the International Brotherhood of Pulp, Sulphite and Paper Mill Workers, United Papermakers and Paperworkers, Pulp and Paper Workers of Canada and the International Woodworkers of America continued into their second year. The agreements expire in the middle of 1968.

Apart from a number of wildcat strikes, the Company's relations with the various Unions continued on a satisfactory basis. A serious threat to operations was caused by a jurisdictional dispute

between the International Brotherhood of Pulp, Sulphite and Paper Mill Workers and the Pulp and Paper Workers of Canada as to which Union should be certified to represent the employees at Harmac Division. Both organizations at one time or another sought to force the Company to discharge large numbers of supporters of the opposite Union. The Court upheld the right of the employees to continue to work.

Industrial relations in Canada, generally, continue to give cause for grave concern. Serious disputes have been frequent and costly wage settlements have contributed greatly to inflation. The ability of Canadian industry to meet the competition of other countries is being continually eroded by wage increases which are usually out of proportion to any increase in productivity.

178 of the Company's employees completed 25 years service in 1967 and were welcomed by the Chairman into the Twenty-Five Year Club. Total membership in this Club now numbers 1,765, of whom 1,100 are still actively employed. The Company values the role that these experienced employees play in the Company's progress.

ACCIDENT PREVENTION

Continued emphasis on employee training resulted in a 33% reduction in the Company's accident frequency rate compared with 1966. Significant improvement was achieved in all Product Groups, with several divisions establishing accident-free records during the year. The President's Safety Award was won by the Teakerne Arm Division, this being the first time the award has been won by a Division in the Logging Group.

The improvement in accident performance assisted in limiting the amount of increase of Workmen's Compensation Board costs which, nevertheless, rose appreciably because of the recent retroactive increase in pension benefits.

TELEVISION PRESENTATION

Arrangements were made in the latter part of the year for the Company to make its first venture into national television programming through the presentation of a 2¼-hour drama, "The Strange Case of Dr. Jekyll and Mr. Hyde", which was telecast on January 3, 1968 on the CBC national

network, with this Company as the sole sponsor. The commercials used were generally of a corporate nature illustrating various aspects of the Company's operations, such as re-forestation, utilization and distribution. The response was most gratifying and contributed to wider knowledge across Canada of the Company's products and policies.

NEW HEAD OFFICE BUILDING

The construction of the new Head Office Building at the corner of Georgia and Thurlow Streets, Vancouver, is proceeding satisfactorily and it will be ready for occupancy at the end of 1968. The concrete structure will be completed by April. The rentable floor area of approximately 327,000 sq. ft. will be sub-let to the extent of approximately 185,000 sq. ft. and a number of important tenants have already signified their intention of entering into long-term leases. The cost of the building is expected to be about \$14.5 million and the net rental cost to the Company will be well within the rates charged for first-class building space centrally located in Vancouver.

The building, designed by Messrs. Erickson-Massey, Architects, is already most striking and, when it is completed, with its landscaped plaza well set back from the street, will present an imposing appearance. The great advantage, however, will be to have the Head Office staff of the Company in one building which will increase efficiency and reduce costs.

The present building, at the corner of Pender and Bute Streets, is held on a long-term lease with options to renew until the year 2008. The space in this building will be leased to others and the building will be re-named to reflect the name of one of the principal tenants, Cominco Limited.

GENERAL

In the light of the expansions in British Columbia and Alabama, the Company is now well equipped with production facilities, and its forest resources are fully sufficient for all foreseeable needs. It is thus in a favourable position to take advantage of increased sales opportunities when they occur.

While the outlook for lumber and plywood is promising, that for pulp and newsprint is essentially one of over-supply during the next few years.

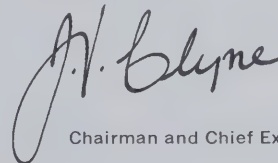
The new mills which have recently come into production, or are expected to come into production in the near future, serve to accentuate the already difficult situation.

The agreement reached in the early part of 1967 to apply tariff cuts over the next few years under the Kennedy Round does not appear to have an unduly unfavourable effect on the Company's exports, and hope is entertained that the Company will be able to participate in the increased world trade that is expected to develop. Unfortunately, the difficulty experienced by the U.S.A. in its balance of payments has led to a number of disturbing demands for various forms of protection which, if ever enacted, may serve to defer for some years the benefits expected to flow from the Kennedy Round Agreement.

The report of Mr. Justice Nemetz, who, at the request of the Provincial Government, undertook to study labour relations, has now been released. The recommendations envisage the establishment of a permanent industrial enquiry commission and include a number of important proposals designed to promote industrial peace in this Province. The Company feels very strongly that the present methods of negotiation are wholly unsatisfactory and endorses the view that decisions must be reached on the basis of full economic and statistical knowledge, carefully prepared and studied on a continuing basis. It is a most constructive report and, if implemented, will make a valuable contribution to the avoidance of costly and wasteful strikes.

As in the past, a copy of the Annual Report is sent not only to all shareholders but to all employees so that they, too, may be fully informed in respect to the Company's operations. On behalf of the directors I take this opportunity of thanking the employees for their part in the progress and achievements of the Company during the year under review.

On behalf of the Board,



Chairman and Chief Executive Officer

Vancouver, Canada
March 8, 1968

Historical Review*

1967

1966

1965

Operating

Production

Logs.....(M Cu. Ft.).....	274,677	273,425	238,900
Lumber.....(M FBM).....	1,139,437	1,037,806	1,014,757
Plywood.....(M Sq. Ft. $\frac{3}{8}$ ").....	416,664	406,271	386,457
Shingles.....(Squares).....	443,816	430,852	479,983
Particleboards.....(M Sq. Ft. $\frac{3}{8}$ ").....	89,905	68,557	38,016
Specialty board.....(M Sq. Ft.).....	12,950	7,517	1,580
Newsprint.....(Short tons).....	832,361	896,361	843,968
Pulp.....(Short tons).....	550,245	586,867	556,135
Kraft paper and paperboard..(Short tons).....	178,382	174,462	173,018
Fine paper.....(Short tons).....	20,801	20,043	17,868
Corrugated containers.....(M Sq. Ft.).....	1,454,032	1,057,038	699,881
Wages, salaries and employee benefits.....	\$132,698,261	\$116,772,119	\$101,485,089
Number of employees at end of year.....	16,549	15,959	14,930

Financial

Income, all sources.....	\$540,584,464	<i>12.9%</i> \$478,954,359	\$437,182,442
Net earnings after income taxes			
Amount.....	\$ 36,189,166	<i>14.8%</i> \$ 42,460,618	\$ 40,594,282
Per share.....	\$ 1.74	\$ 2.04	\$ 1.95
Depreciation, depletion and amortization.....	\$ 31,101,353	\$ 28,340,222	\$ 23,976,158
Retained earnings for the year.....	\$ 11,083,772	\$ 16,343,477	\$ 15,551,676
Capital expenditures.....	\$119,863,008	\$ 90,418,360	\$ 52,324,668
Dividends			
Cash - Ordinary shares			
Amount.....	\$ 25,027,505	\$ 20,856,255	\$ 20,848,755
Per share.....	\$ 1.20	\$ 1.00	\$ 1.00
Cash - Preference shares			
Amount.....	\$ 77,889	\$ 46,822	\$ 24,600
Per share.....	\$.03	\$.03	\$.03
Stock			
Amount.....	—	\$ 5,214,064	\$ 4,169,251
Per share.....	—	\$.25	\$.20
Number of shareholders at end of year**.....	24,671	24,415	23,135

*Statistics do not reflect the consolidation of overseas subsidiaries (see Note 1 of Financial Statements).

**Excluding holders of share warrants.

***Includes tonnage purchased during strike.

39
540,584,464
478,954,359
61,630,105

35
478,954,359
36,189,166
6,271,452

12.9%

14.8%
decline

1964	1963	1962	1961	1960
215,512	206,206	194,519	171,715	170,603
915,206	804,102	744,024	707,792	699,463
374,036	372,054	356,974	347,523	299,335
452,002	449,323	385,423	413,565	385,841
—	—	—	—	—
—	—	—	—	—
790,850***	689,296	681,448	643,576	656,318
483,773	368,152	343,982	333,932	327,550
159,683***	159,635	134,825	120,971	115,592
14,482	12,089	8,429	5,194	1,986
679,291	665,240	669,523	606,697	624,897
\$ 89,500,618	\$ 81,724,493	\$ 77,526,441	\$ 74,865,659	\$ 74,369,957
14,360	13,430	13,074	13,282	13,108
\$413,308,840	\$349,368,343	\$330,669,043	\$315,323,217	\$305,291,437
\$ 41,440,597	\$ 36,660,068	\$ 36,081,809	\$ 27,395,968	\$ 24,575,651
\$ 1.99	\$ 1.76	\$ 1.73	\$ 1.32	\$ 1.18
\$ 29,007,429	\$ 22,486,653	\$ 21,514,897	\$ 21,903,353	\$ 22,354,087
\$ 16,425,091	\$ 15,828,813	\$ 20,462,118	\$ 11,776,277	\$ 8,959,663
\$ 78,439,712	\$ 47,119,433	\$ 37,608,336	\$ 18,613,028	\$ 16,781,622
\$ 20,846,255	\$ 20,831,255	\$ 15,619,691	\$ 15,619,691	\$ 15,615,988
\$ 1.00	\$ 1.00	\$.75	\$.75	\$.75
—	—	—	—	—
—	—	—	—	—
\$ 4,169,251	—	—	—	—
\$.20	—	—	—	—
20,597	18,909	18,962	18,606	16,728

Consolidated Balance Sheet

DECEMBER 31 1967 (with comparable balances as at December 31 1966)

Assets

	December 31 1967	December 31 1966
CURRENT ASSETS:		
Cash.....	\$ 5,730,630	\$ 2,885,697
Short term investments and deposits.....	4,899,121	897,745
Trade and other accounts receivable.....	65,287,047	62,170,835
Amounts receivable from non-consolidated subsidiaries.....	15,361,529	3,691,344
Inventories (Note 2).....	68,902,305	74,529,410
Prepaid expenses.....	1,282,431	1,631,851
	<u>161,463,063</u>	<u>145,806,882</u>
INVESTMENTS AND OTHER ASSETS:		
Non-consolidated subsidiaries -		
Investments (Note 1).....	42,159,196	40,394,295
Advances.....	2,381,778	628,340
Investments, at cost (quoted market value - \$5,395,900).....	5,295,122	5,056,895
Other investments and miscellaneous assets, at cost.....	5,804,335	5,606,130
Special refundable tax.....	2,332,392	2,757,283
	<u>57,972,823</u>	<u>54,442,943</u>
FUNDS ALLOCATED FOR CAPITAL PURPOSES:		
Funds held by trustee for construction projects (Note 3).....	25,120,874	70,598,020
Government notes and bonds, payable in U.S. funds, at cost (quoted market value - \$6,267,028).....	5,569,743	6,115,181
	<u>30,690,617</u>	<u>76,713,201</u>
PROPERTY, PLANT AND EQUIPMENT (Note 4):		
Pulp and paper mills, sawmills, plywood mills, other buildings, machinery and equipment, at cost.....	571,842,151	477,804,913
Less -		
Accumulated depreciation.....	285,199,944	266,729,018
	<u>286,642,207</u>	<u>211,075,895</u>
Construction in progress.....	75,170,698	66,325,856
Timber and land, at cost less accumulated depletion (December 31 1967 - \$54,748,644; December 31 1966 - \$49,921,125)...	77,093,889	75,037,081
Logging roads, at cost less amortization.....	13,225,855	10,932,162
	<u>452,132,649</u>	<u>363,370,994</u>
BOND AND DEBENTURE DISCOUNT AND FINANCING EXPENSES, at cost less amortization.....	<u>1,807,074</u>	<u>1,382,121</u>
	<u>\$704,066,226</u>	<u>\$641,716,141</u>

Liabilities

	December 31 1967	December 31 1966
CURRENT LIABILITIES:		
Bank loans (in part secured).....	\$ 8,234,506	\$ 6,738,925
Note payable.....	5,065,354	—
Accounts payable and accrued liabilities.....	46,780,394	44,958,531
Income taxes payable.....	10,117,968	2,628,386
Payments due within one year on long term debt (Note 6).....	998,022	1,422,928
	<u>71,196,244</u>	<u>55,748,770</u>
CONSTRUCTION ACCOUNTS PAYABLE (Note 3).....	3,949,938	1,498,833
LONG TERM DEBT:		
Bonds and debentures (Note 5).....	220,269,386	197,831,386
Other secured liabilities.....	10,520,175	6,901,670
	<u>230,789,561</u>	<u>204,733,056</u>
DEFERRED INCOME TAXES (Note 7).....	59,934,257	52,334,300
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES.....	316,776	605,504
	<u>366,186,776</u>	<u>314,920,463</u>

Shareholders' Equity

SHARE CAPITAL:		
Redeemable non-cumulative 3% preference shares with a par value of \$1 each—		
Authorized — 2,749,066 shares		
Outstanding— 2,596,285 shares.....	2,596,285	2,596,285
Ordinary shares without nominal or par value (Note 8)—		
Authorized — 25,000,000 shares		
Outstanding— 20,856,255 shares.....	159,497,000	159,497,000
	<u>162,093,285</u>	<u>162,093,285</u>
RETAINED EARNINGS—per statement attached.....	175,786,165	164,702,393
	<u>337,879,450</u>	<u>326,795,678</u>
COMMITMENTS (Note 9)		
APPROVED ON BEHALF OF THE BOARD:		
J. V. CLYNE <i>Director</i>		
C. A. SPECHT <i>Director</i>		
	<u>\$704,066,226</u>	<u>\$641,716,141</u>

Consolidated Statement of EarningsFOR THE YEAR ENDED DECEMBER 31 1967 *(with a comparable statement for the preceding year)*

	1967	1966
Sales and other income:		
Sales of products and services (Note 10).....	\$534,816,599	\$473,504,817
Equity in net earnings of non-consolidated subsidiaries (Note 1)...	1,442,740	1,620,540
Income from other investments.....	4,052,006	3,585,173
Profit on disposal of short term investments and capital assets...	273,119	243,829
	<u>540,584,464</u>	<u>478,954,359</u>
Costs and expenses (Note 11):		
Cost of sales and services.....	424,193,557	363,177,485
Marketing, advertising and promotion expenses.....	12,390,825	8,985,289
General and administrative expenses.....	18,628,342	17,694,371
Interest on bonds and debentures.....	10,393,087	6,955,503
Bank and other interest.....	859,349	271,295
	<u>466,465,160</u>	<u>397,083,943</u>
Earnings before deducting income taxes.....	<u>74,119,304</u>	<u>81,870,416</u>
Income taxes:		
Current.....	30,330,181	19,328,386
Deferred (Note 7).....	7,599,957	20,081,412
	<u>37,930,138</u>	<u>39,409,798</u>
Net earnings for the year.....	<u>\$ 36,189,166</u>	<u>\$ 42,460,618</u>
Cost of sales and services includes the following (Note 12):		
Depreciation.....	\$ 21,901,520	\$ 19,425,250
Depletion.....	4,832,870	4,935,593
Amortization of logging roads.....	4,366,963	3,979,379
	<u>\$ 31,101,353</u>	<u>\$ 28,340,222</u>

Consolidated Statement of Retained EarningsFOR THE YEAR ENDED DECEMBER 31 1967 *(with a comparable statement for the preceding year)*

	1967	1966
Balance at beginning of year.....	\$164,702,393	\$148,358,916
Net earnings for the year – per statement attached.....	36,189,166	42,460,618
	<u>200,891,559</u>	<u>190,819,534</u>
Dividends declared and paid during the year:		
On ordinary shares –		
Cash dividends – \$1.20 per share (1966 – \$1.00 per share).....	25,027,505	20,856,255
Stock dividends.....	—	5,214,064
On preference shares.....	77,889	46,822
	<u>25,105,394</u>	<u>26,117,141</u>
Balance at end of year.....	<u>\$175,786,165</u>	<u>\$164,702,393</u>

Consolidated Statement of Source and Application of Working Capital

FOR THE YEAR ENDED DECEMBER 31 1967 (with a comparable statement for the preceding year)

	1967	1966
Source of working capital:		
Net earnings.....	\$ 36,189,166	\$ 42,460,618
Non-cash charges in arriving at net earnings—		
Depreciation, depletion and amortization of logging roads.....	31,101,353	28,340,222
Deferred income taxes.....	7,599,957	20,081,412
Amortization of bond and debenture discount and financing expenses.....	112,755	59,505
	75,003,231	90,941,757
Bonds and debentures (net after discount).....	24,598,985	140,003,247
Sale of Government notes and bonds.....	545,438	1,656,408
Other items (net).....	—	840,678
	<u>100,147,654</u>	<u>233,442,090</u>
Application of working capital:		
Net additions to property, plant and equipment.....	119,863,008	90,418,360
Less—		
Financed from funds allocated for capital purposes and by non-current liabilities.....	50,707,283	5,549,073
	69,155,725	84,869,287
Funds deposited with trustee for construction projects.....	—	74,648,260
Cash dividends paid.....	25,105,394	20,903,077
Purchase of preference shares.....	—	4,331,669
Other investments and miscellaneous assets.....	198,205	2,064,368
Payments of, and current provision for, long term debt.....	1,758,167	3,750,012
Investments in and advances to non-consolidated subsidiaries.....	3,518,339	1,700,403
Special refundable tax.....	(424,891)	2,757,283
Other items (net).....	628,008	—
	<u>99,938,947</u>	<u>195,024,359</u>
Increase in working capital.....	208,707	38,417,731
Working capital at beginning of year.....	90,058,112	51,640,381
Working capital at end of year.....	<u>\$ 90,266,819</u>	<u>\$ 90,058,112</u>

Auditors' Report

TO THE SHAREHOLDERS OF MACMILLAN BLOEDEL LIMITED:

We have examined the consolidated balance sheet of MacMillan Bloedel Limited as at December 31 1967 and the consolidated statements of earnings, retained earnings and source and application of working capital for the year then ended. Our examination of the financial statements of the company and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. After making such enquiries and reviews as we considered appropriate, we have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31 1967, and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change (which we approve) in the method of computing deferred income taxes referred to in Note 7 to the consolidated financial statements.

Vancouver, B.C.
March 8 1968.

PRICE WATERHOUSE & CO.,
Chartered Accountants.

Notes to Consolidated Financial Statements

AS AT DECEMBER 31 1967

1. PRINCIPLES OF CONSOLIDATION:

It is the company's practice to include in its consolidated financial statements the accounts of its Canadian and United States subsidiaries but not the accounts of overseas subsidiaries in the United Kingdom and elsewhere. The equity of MacMillan Bloedel Limited in the net earnings for the year of the non-consolidated subsidiaries is included in the accompanying consolidated statement of earnings. The investments in these subsidiaries are carried on the consolidated balance sheet at a cost of \$37,589,239 plus the company's share of undistributed net earnings since acquisition. While the carrying value of the investments is in excess of the related equity in the net assets at book value, it is not considered that any provision for amortization is required.

The consolidated financial statements include the accounts of MacMillan Bloedel United Inc. and MacMillan Bloedel Products Inc., and, as described in Note 3, reflect the transactions relating to the leased facilities of those companies in Alabama as if such facilities were owned by the companies. MacMillan Bloedel Limited owns only 60% of one of these subsidiaries but, in accordance with generally accepted principles of consolidation, the consolidated financial statements include the total assets and liabilities of the subsidiary with appropriate recognition of the interest of minority shareholders.

Current assets (other than inventories) and current liabilities of subsidiaries located outside of Canada have been translated into Canadian dollars at the rates of exchange in effect as at the balance sheet date, or at rates related to forward exchange contracts; other assets (and related depreciation and amortization) and liabilities have been translated at the rates in effect at the dates on which the assets were acquired or the liabilities were incurred. Other than depreciation and amortization, items entering into net earnings have been translated at the average rates for the year. The net credit balance arising from the translation of foreign currencies has been regarded as unrealized and has not, therefore, been taken into income.

2. INVENTORIES:

The companies' inventories as at December 31 1967 and December 31 1966 comprised the following:

	December 31	
	1967	1966
Logs, pulp chips and other raw materials.....	\$25,315,967	\$28,604,918
Lumber, plywood and other wood products.....	22,245,188	24,985,515
Pulp and paper products.....	8,825,493	9,243,465
Packaging products.....	1,747,487	1,543,263
Operating and maintenance supplies.....	10,768,170	10,152,249
	<u>\$68,902,305</u>	<u>\$74,529,410</u>

Logs, pulp chips and other raw materials and operating and maintenance supplies are valued at the lower of cost and replacement cost and manufactured products at the lower of cost and net realizable value.

3. FUNDS HELD BY TRUSTEE FOR CONSTRUCTION PROJECTS:

On June 6 1966 two of the company's United States subsidiaries, MacMillan Bloedel United Inc. and MacMillan Bloedel Products Inc., signed long term leases (with options to purchase at the end of the leases at nominal amounts) for a pulp and linerboard mill, sawmill, plywood mill and other facilities now being constructed in Alabama by The Industrial Development Board of the Town of Camden from the proceeds of the sale of industrial revenue bonds in the amount of \$70,000,000 U.S. The rentals under the leases are calculated to retire the principal and interest obligations under the bonds. Because of these and other provisions under the lease agreements, the transactions are being recorded on the basis of ownership for accounting purposes. Accordingly, the unexpended proceeds from the sale of the bonds (consisting principally of time deposits) are shown in the accompanying consolidated balance sheet as funds held by the trustee, the expenditures to December 31 1967 are included in the total of construction in progress and the liability for the principal amount of the bonds is shown with bonds and debentures (Note 5). Construction accounts payable from funds held by the trustee are shown separately below current liabilities.

The issued share capital of MacMillan Bloedel United Inc. is owned as to 60% by MacMillan Bloedel Limited and as to 40% by United Fruit Company of Boston, Massachusetts, and, in the same proportions, these companies guarantee the performance by MacMillan Bloedel United Inc. of the obligations under its lease agreement. The performance by MacMillan Bloedel Products Inc. of the obligations under its lease agreement is guaranteed by MacMillan Bloedel Limited.

4. PROPERTY, PLANT AND EQUIPMENT:

Particulars of plant and equipment as at December 31 1967 and December 31 1966 are as follows:

	Cost	Accumulated depreciation	Net book value
December 31 1967:			
Pulp and paper mills.....	\$422,695,682	\$198,270,073	\$224,425,609
Sawmills, plywood mills and other wood products plants.....	67,646,255	40,967,660	26,678,595
Logging buildings and equipment.....	50,353,070	31,434,124	18,918,946
Packaging plants and equipment.....	16,415,767	7,846,707	8,569,060
Other buildings and equipment.....	14,731,377	6,681,380	8,049,997
	<u>\$571,842,151</u>	<u>\$285,199,944</u>	<u>\$286,642,207</u>
December 31 1966:			
Pulp and paper mills.....	\$340,478,436	\$185,026,781	\$155,451,655
Sawmills, plywood mills and other wood products plants.....	62,920,935	38,699,213	24,221,722
Logging buildings and equipment.....	45,908,818	29,586,754	16,322,064
Packaging plants and equipment.....	16,132,722	7,157,646	8,975,076
Other buildings and equipment.....	12,364,002	6,258,624	6,105,378
	<u>\$477,804,913</u>	<u>\$266,729,018</u>	<u>\$211,075,895</u>

Construction in progress at December 31 1967 consists of an expansion programme at Powell River, B.C. and new plant facilities in Alabama (referred to in Note 3) details of which are as follows:

	Powell River	Alabama	Total
Estimated total project costs.....	<u>\$110,143,000</u>	<u>\$ 74,916,000</u>	<u>\$185,059,000</u>
Expenditures to December 31 1967.....	<u>\$104,014,349</u>	<u>\$ 53,193,919</u>	<u>\$157,208,268</u>
Less—			
Completed portions, included with property, plant and equipment.....	82,037,570	—	82,037,570
Construction in progress—December 31 1967.....	<u>\$ 21,976,779</u>	<u>\$ 53,193,919</u>	<u>\$ 75,170,698</u>

5. BONDS AND DEBENTURES:

	December 31	
	1967	1966
MacMillan Bloedel Limited—		
4.95% sinking fund debentures Series "A" maturing October 1 1990:		
\$42,000,000 U.S. (Canadian equivalent \$45,373,125)–		
at amount realized.....	\$ 45,120,383	\$ 45,120,383
5½% ten-year term debentures Series "B" maturing January 3 1976....	50,000,000	50,000,000
6½% sinking fund debentures Series "C" maturing July 15 1992:		
\$23,200,000 U.S. (Canadian equivalent \$25,063,250)–		
at amount realized.....	24,962,219	—
	<u>120,082,602</u>	<u>95,120,383</u>
MacMillan Bloedel Industries Limited—		
Sinking fund debentures:		
5½% twenty-year debentures Series "A" maturing May 15 1978.....	10,851,000	13,038,000
4⅞% twenty-year debentures Series "B" maturing May 15 1978–		
\$6,530,000 U.S. (Canadian equivalent \$7,054,441)–		
at amount realized.....	6,283,084	6,379,303
	<u>17,134,084</u>	<u>19,417,303</u>
Carried forward.....	<u>\$137,216,686</u>	<u>\$114,537,686</u>

Notes to Consolidated Financial Statements as at December 31 1967 (continued)

	December 31	
	1967	1966
Brought forward.....	\$137,216,686	\$114,537,686
Burnaby Paperboard Ltd. -		
First mortgage and collateral trust bonds:		
1955 Series -		
4½% sinking fund bonds maturing September 1 1975.....	4,016,000	4,050,500
1958 Series -		
5¾% serial bonds maturing May 15 1968.....	100,000	200,000
5¾% sinking fund bonds maturing May 15 1978.....	1,903,000	1,915,000
	6,019,000	6,165,500
Kingsway Lumber Co. Limited -		
6¾% sinking fund debentures:		
Series "A" maturing December 15 1982.....	929,000	973,500
Series "B" maturing February 1 1985.....	848,000	880,000
	1,777,000	1,853,500
MacMillan Bloedel Products Inc.* -		
3.95% to 4.10% industrial development revenue bonds, maturing June 1 1969 to 1975 - \$3,200,000 U.S. (Canadian equivalent \$3,457,000) - at amount realized.....	3,440,000	3,440,000
4¾% sinking fund industrial development revenue bonds, maturing June 1 1988 - \$10,800,000 U.S. (Canadian equivalent \$11,667,375) - at amount realized.....	11,610,000	11,610,000
	15,050,000	15,050,000
MacMillan Bloedel United Inc.* -		
3.95% to 4.10% industrial development revenue bonds, maturing June 1 1969 to 1975 - \$12,800,000 U.S. (Canadian equivalent \$13,828,000) - at amount realized.....	13,760,000	13,760,000
4¾% sinking fund industrial development revenue bonds, maturing June 1 1988 - \$43,200,000 U.S. (Canadian equivalent \$46,669,500) - at amount realized.....	46,440,000	46,440,000
	60,200,000	60,200,000
MacMillan Bloedel (Manitoba) Limited -		
4% debentures maturing January 1 1970.....	160,700	160,700
	220,423,386	197,967,386
Less -		
Payments due within one year (Note 6).....	154,000	136,000
	\$220,269,386	\$197,831,386

*These industrial development revenue bonds are direct obligations of The Industrial Development Board of the Town of Camden, Alabama (see Note 3).

On January 16 1968 MacMillan Bloedel Limited received \$7,367,281 (\$6,800,000 U.S.) from the final closing of the 6½% Series "C" debentures, bringing the total amount realized on these debentures to \$30,000,000 U.S. (Canadian \$32,329,500).

6. PAYMENTS ON LONG TERM DEBT:

The payments on long term debt in each of the five years following December 31 1967 are as follows:

	Bonds and debentures	Other secured liabilities	Total
1968.....	\$ 154,000*	\$ 844,022	\$ 998,022
1969.....	3,214,552*	1,248,531	4,463,083
1970.....	4,923,247	1,163,612	6,086,859
1971.....	7,126,067	1,106,534	8,232,601
1972.....	7,233,567	1,083,177	8,316,744

*Reduced by purchase and cancellation of bonds and debentures up to December 31 1967.

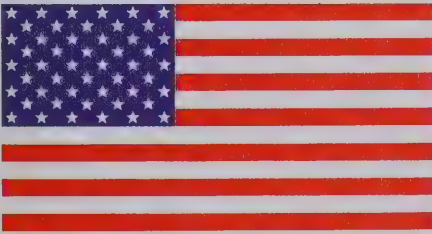
7. DEFERRED INCOME TAXES:

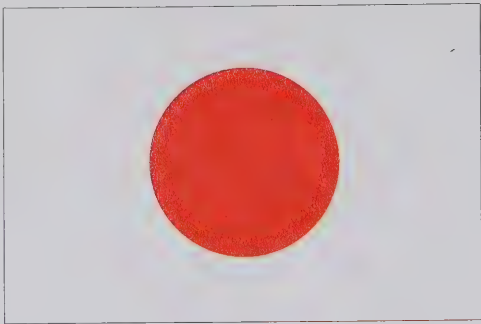
It has been the company's practice to provide for deferred income taxes in respect of capital cost allowances claimed for income tax purposes in excess of amounts recorded in the accounts. In 1967 the company extended the principle of income tax allocation to other differences between taxable income and that reported in the accounts in order to comply fully with the recent recommendations of The Canadian Institute of Chartered Accountants. This change had no material effect on net earnings for the year.

United States

The bulk of MacMillan Bloedel newsprint is sold in the western region of the United States. Newspapers there have been served by the Company's mills since production first began at Powell River in 1912 and a regular service is maintained with special newsprint barges between MB mills and U.S. Pacific coast ports.

In the East, MB lumber is a popular material wherever timber frame construction methods are used. In many new developments, such as one on Long Island, timber framed town houses are combined with high-rise apartments in an attractive total community.





Japan

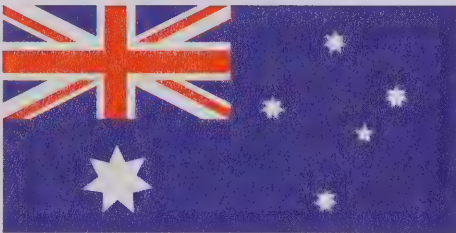
MacMillan Bloedel pulp shipped to Japan finds its way into scores of paper and paperboard products in the Orient's richest market. MB plywood is used in the Japanese construction industry, as structural components and as concrete form panels.

So numerous are the lumber sizes used in the Japanese building industry its needs are in part met by shipping "squares" or large sawn timbers which can then be re-sawn in Japan according to the requirements of local lumber yards. When the timbers arrive in Japan they can be unloaded directly into the water and moved to shore by men using boatmen's poles.



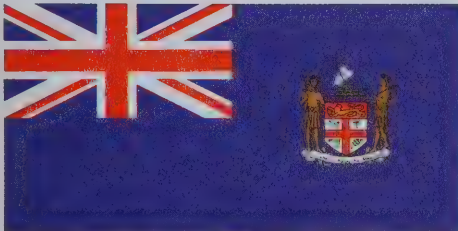
Australia

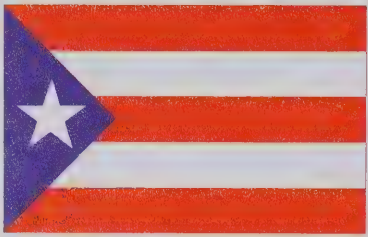
Soaring architecture of the new Sydney Opera House typifies the vigour of modern Australia which is a growing market for MacMillan Bloedel products whether they be newsprint for the commuters' newspapers on a Sydney harbour ferry, or lumber to help supply the Commonwealth's demand for new housing.



Fiji

Designers of a new luxury hotel just off the Fiji island of Viti Levu rejected customary thatch roofs and chose, instead, MacMillan Bloedel's red cedar shakes to shed the tropical downpours. It is probably the first such use of shakes in the Islands.





Puerto Rico

Canadian softwoods are used in tropical architecture and construction, serving well in the Puerto Rican climate as timber framing for low cost dwellings. Puerto Rico is a traditional market for MacMillan Bloedel products.





Philippines

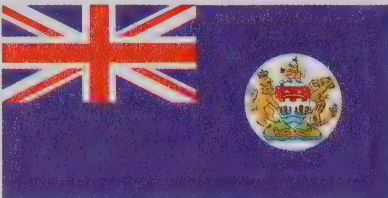
The newspapers of Manila, many of them printed on MacMillan Bloedel newsprint, serve a multi-lingual population in the capital of the Philippines. There are newspapers printed in English, in Spanish, in Chinese and in the national tongue Tagalog.





Holland

KNP, or Koninklijke Nederlandsche Papierfabriek N.V., in which MacMillan Bloedel has a substantial interest, is a major consumer of MacMillan Bloedel pulp. KNP's principal plant at Maastricht in Holland receives its pulp supplies from B.C. via freighter to Rotterdam, thence by barge up the Maas River where it is then unloaded at the mill's own dock facilities.



Hong Kong

From Powell River to Hong Kong goes paper for telephone directories to serve the four million people who live in high-rise buildings clustered around the spectacular harbour. Ships from B.C. carrying our products are regular visitors to the Crown Colony.





South Africa

Table Mountain identifies Capetown, South Africa, where MacMillan Bloedel lumber is unloaded for trans-shipment to many parts of the Republic.



Directors

- PRENTICE BLOEDEL Bainbridge Island, Washington, U.S.A.
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President, Pioneer Envelopes Limited
- C. A. SPECHT Vancouver, British Columbia
President, MacMillan Bloedel Limited
- W. J. VANDUSEN Vancouver, British Columbia
Retired – former Vice-Chairman, MacMillan & Bloedel Limited
- FREDERICK WILSON Spokane, Washington, U.S.A.
Investment Counsel
- C. B. WRIGHT, JR. Seattle, Washington, U.S.A.
Real Estate Development

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- G. D. ECCOTT *Vice-President – Finance, and Secretary of the Company*
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- J. O. HEMMINGSEN *Vice-President and General Manager, Wood Products Group*
- H. V. TOWNSEND *Vice-President and General Manager, Packaging Group*
- P. M. DOWNES *Vice-President, Corporate Communications*
- D. W. TIMMIS *Vice-President, Production – Pulp and Paper Group*
- H. R. CHISHOLM *Assistant Vice-President and General Manager, Logging Group*
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- I. S. BRAND *Assistant Vice-President, Marketing – Wood Products Group*
- J. R. FORREST *Assistant Vice-President, Manufacturing – Wood Products Group*
- A. C. McGOUGAN *Assistant Vice-President, Pulp and Paper Sales – Pulp and Paper Group*
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- C. G. CHAMBERS *Treasurer*
- T. P. BOYLE *Corporate Controller*
- F. H. BRITTON *Corporation Solicitor*
- A. P. MacBEAN *Chief Forester*
- E. N. WALTON *Chief Engineer*
- R. D. MacFAYDEN *Assistant Secretary*
- J. G. C. CUNNINGHAM *Assistant Secretary*

Executive Committee

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- PRENTICE BLOEDEL
- F. H. BROWN
- G. D. ECCOTT
- L. G. HARRIS
- J. O. HEMMINGSEN
- H. R. MacMILLAN
- *R. G. MILLER
- E. G. SHORTER
- C. A. SPECHT
- W. J. VANDUSEN

Registrars and Transfer Agents

- THE ROYAL TRUST COMPANY, Vancouver
- THE CANADA TRUST COMPANY, Calgary, Montreal, Toronto, Winnipeg
- THE CHASE MANHATTAN BANK, New York

Auditors

- PRICE WATERHOUSE & CO., Vancouver

Logging operations, plants and distribution centres**LOGGING OPERATIONS, B.C.**

Cameron
Copper Canyon
Franklin River
Halfmoon Bay
Kelsey Bay
Kennedy Lake
Menzie's Bay
Misery Creek
Nanaimo River
Nelson Island
Northwest Bay
Port Hardy
Queen Charlotte
Shawnigan
Sproat Lake
Squamish
Stillwater
Wilson Creek

CEDAR POLE YARDS

Nanaimo River, B.C.
New Westminster, B.C.
Port Alberni, B.C.

LUMBER

Chemainus, B.C.
Harmac, B.C.
New Westminster, B.C.
Pine Hill, Alabama
Port Alberni, B.C.
Powell River, B.C.
Vancouver, B.C.

PLYWOOD

Pine Hill, Alabama
Port Alberni, B.C.
Vancouver, B.C.

WOOD PRODUCT SPECIALTIES

Hudson Bay, Sask.
Aspenite Particleboard
Port Alberni, B.C.
Shingles
Vancouver, B.C.
Particleboard
Pres-to-logs
Shingles
Specialty Board

NEWSPRINT

Port Alberni, B.C.
Powell River, B.C.

PULP

Harmac, B.C.
Bleached Sulphate
Port Alberni, B.C.
Unbleached Sulphate
Powell River, B.C.
Semi-bleached Sulphate

SPECIALTY PAPER PRODUCTS

Annacis Island,
New Westminster, B.C.
Fine Papers
Burnaby, B.C.
Box Board
Folding and Rigid Boxes
Gypsum Papers
Paper Bags
Roofing Felts
Port Alberni, B.C.
Kraft Corrugating Medium
Kraft Paper
Linerboard
Powell River, B.C.
Core Stock
Corrugating Medium

CORRUGATED CONTAINER PLANTS

*Manufacturing a wide variety
of corrugated containers*

CANADA

Winnipeg, Man.
Regina, Sask.
Edmonton, Alta.
Calgary, Alta.
New Westminster, B.C.

UNITED KINGDOM

Hatfield, Herts.
Nelson, Lancs.
Southall, Middlesex
West Auckland, Co. Durham
Weston-Super-Mare, Somerset

UNITED STATES

Baltimore, Md.
Jersey City, N.J.

**CANADIAN SALES OFFICES
AND DISTRIBUTION CENTRES**

Wood Products

EASTERN

Truro, N.S.
Drummondville, Que.
Montreal, Que.
Quebec City, Que.
Rimouski, Que.
Belleville, Ont.
Brantford, Ont.
Carleton Place, Ont.
Chatham, Ont.
Fonthill, Ont.
Kitchener, Ont.
London, Ont.
Orillia, Ont.
Oshawa, Ont.
Ottawa, Ont.
Owen Sound, Ont.
Sudbury, Ont.
Timmins, Ont.
Toronto, Ont.
Windsor, Ont.

WESTERN

Winnipeg, Man.
Regina, Sask.
Saskatoon, Sask.
Edmonton, Alta.
Calgary, Alta.
Lethbridge, Alta.
Vancouver, B.C.

Principal subsidiary companies

Alberni Pulp & Paper Ltd.
Blanchard Lumber Company
Burnaby Paperboard Ltd.
Canadian Transport Company Limited
Canadian Transport (Terminals) Limited
Kingscome Navigation Company Limited
Kingsway Lumber Co. Limited
MacMillan Bloedel (Alabama) Inc.
MacMillan Bloedel (Alberni) Limited
MacMillan Bloedel (Alberta) Limited
MacMillan Bloedel (B.C.) Limited
MacMillan Bloedel Building Limited
MacMillan Bloedel Containers Limited
MacMillan Bloedel Industries Limited

MacMillan Bloedel (Manitoba) Limited
MacMillan Bloedel Meyer Limited
MacMillan Bloedel Meyer (Terminals) Limited
MacMillan Bloedel (New York) Inc.
MacMillan Bloedel (Ontario) Limited
MacMillan Bloedel Packaging Limited
MacMillan Bloedel Products Inc.
MacMillan Bloedel Pty. Limited
MacMillan Bloedel Pulp and Paper Sales Limited
MacMillan Bloedel (Quebec) Limited
MacMillan Bloedel Sales Inc.
MacMillan Bloedel (Saskatchewan) Limited
MacMillan Bloedel United Inc.
MacMillan Jardine Limited

